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SUBJECT: BRAZIL: HEAD OF FTA UNIT DISCUSSES CURRENT NEGOTIATIONS

¶1. (U) SUMMARY: In a recent meeting with Evandro Didonet, Director of the Department of International Negotiations at Itamaraty, Didonet reviewed the status of ongoing Mercosul FTA negotiations, including Israel, GCC, India, EU and the preferential agreement with SACU. Brazil does not negotiate FTAs bilaterally, but only with Mercosul partners. No FTA has yet completed the negotiation, signature and ratification process. A cumbersome Congressional ratification process will be a challenge for any eventual FTA ratification. END SUMMARY

MRE International Negotiations Department

¶2. (U) Evandro Didonet, Director of the Department of International Negotiations at Itamaraty, explained the Foreign Ministry's structure dealing with trade policy in a recent meeting with EconCouns and PolCouns. There are three departments for trade policy. Director Alfonso do Cardoso leads the department responsible for Mercosul and for regional integration. Director Carlos Marcio Cozendey leads the Department of Economic Affairs, covering WTO and other international negotiations. Director Didonet's department is responsible for FTA negotiations. While the Mercosul office handles regional integration work within Latin America, Didonet's office handles the United States and Canada. Didonet's Department includes five senior diplomats and ten junior diplomats, who coordinate with AgMin, MDIC and other ministries to lead trade negotiations.

¶3. (U) Didonet explained that Brazil always negotiates FTAs jointly with the Mercosul bloc. However, he emphasized, negotiations always build in "flexibility" for each Mercosul partner. For example, he offered, Argentina has sensitivities regarding agrochemicals, so only the other three Mercosul members made market access offers in this area in negotiations with Israel. Similarly, part of Israel's agricultural offer applies only to Paraguay and Uruguay; Brazil and Argentina ceded certain opportunities so that Israel would not feel threatened by too much access, Didonet explained. This "flexibility" is an internal principle as well, said Didonet alluding to member exemptions to the Mercosul common external tariff, "allowing countries to feel more comfortable to be in Mercosul." Mercosul FTAs do not necessarily include services, IPR or investment chapters. No Mercosul FTAs have been signed, ratified and implemented, according to Didonet.

FTAs and Congress

¶4. (U) The process to ratify international agreements, including trade agreements, is lengthy in Brazil, according to Didonet. Agreements must go first to the Chamber of Deputies, where they are

reviewed (consecutively, not in parallel) by the Foreign Affairs committee, Economic Affairs committee, Justice and Legal Affairs committee, plus environment or other relevant committees. Each committee must approve the agreement before it goes on to the next committee and eventually to the plenary for a full Chamber vote. The agreement then goes to the Senate, where a similar process unfolds. The situation is further complicated, added Didonet, by the rule that Congress must first consider any executive order signed by the President to decide whether to turn it into legislation before any other legislative business can be taken up. This requirement considerably disrupts legislative calendar planning. (Note: the November 19 Gazeta Mercantil reported that overall 165 international treaties are backlogged in Congress for ratification).

Current Negotiations

15. (SBU) Turning to specific negotiations, Didonet indicated that negotiations on a goods-only FTA with Israel are close to completion; the sticking point remains agricultural market access, where Brazil and Argentina are satisfied but Paraguay and Uruguay have remaining concerns. In Mercosul negotiations with the GCC (which include investment and services sections), "we are not as close as it may seem," Didonet explained. While texts and product lists are well advanced, a fundamental issue remains. GCC's most competitive sector and primary area of interest is petrochemicals, the area where Brazilian industry has significant concerns. Didonet underlined that as far as GCC is concerned, petrochemicals market access is the only reason to negotiate an FTA. Mercosul agreed on a framework for FTA negotiations with both Israel and GCC in 2005 and began negotiating in 2006, according to Didonet.

16. (SBU) The agreement Mercosul has been negotiating with SACU is

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not an FTA, but rather a preference agreement. In October in Pretoria, negotiators closed agricultural and non-agricultural market access sections of the text. The agreement covers only 1000 eight-digit tariff lines (15 percent of two-way trade in tariff-line terms; Brazil exports about 1.5 billion USD to SACU and SACU exports 400-500 million dollars to Brazil, per Didonet). The parties hope to sign the agreement soon, possibly at the Mercosul Summit. Remaining work includes rules of origin and free trade zones (a SACU concern). SPS and TBT are done and are very short sections acknowledging their importance and welcoming possible future work toward mutual recognition of standards. The SACU agreement includes an annex on customs cooperation, a first step toward negotiating an FTA in the future, according to Didonet. Brazilian industry had wanted more access into SACU, but the African parties simply were not ready yet. As would be the process for FTAs, the agreement will go through all four Mercosul members' congresses after signature for ratification. However, SACU's internal procedures to agree to the text and to sign are apparently lengthy and complex and may delay beyond the Mercosul Summit. Didonet hinted at some frustration in negotiating with SACU; before the October negotiations, the last negotiating session had been in August 2006 and "ever since, we've been knocking on the door - it seems hard for them to get ready."

17. (SBU) Mercosul is also negotiating a small agreement with India. Five percent of eight-digit tariff lines (450 lines) are under negotiation. According to Didonet, India is not interested in broadening the negotiations until a 2005 agreement with Mercosul is ratified (only Paraguay congress has ratified, while Argentina, Uruguay and Brazil have not). The agreement awaits a vote on the floor of the Brazilian Chamber of Deputies before proceeding to the Senate. Per Didonet, Amorim made a personal effort to get the agreement through committees in the Chamber, but inertia in congress, rather than any political objection, continues to delay progress.

18. (SBU) Didonet acknowledged that negotiations with the EU have stalled. Lists have been exchanged and texts prepared, but unresolved demands remain on both sides. The EU has indicated it wants "clarity" on Doha negotiations before re-engaging with

Mercosul. He emphasized that EU claims both sides await this "clarity" before proceeding, but it is really just the EU. The EU is offering quotas for agricultural trade rather than unrestricted access and needs to see what it gets overall in Doha before deciding what subset Mercosul can have - a position Brazil is not sympathetic to support.

¶9. (SBU) In addition to negotiations, Mercosul also has "dialogues," with Australia, Japan, Korea, China, and is starting a dialogue with Russia.

FUTURE NEGOTIATIONS

¶10. (SBU) Didonet noted that Mercosul is in internal discussions on whether and which new negotiations to launch next year. The priority is to complete on-going negotiations, particularly the EU agreement, according to Didonet. In addition, Mercosul is discussing whether to agree in future only to negotiate full FTAs and to avoid interim agreements like the preference agreement with SACU. Didonet advocates only negotiating full FTAs rather than ad hoc time-consuming lesser value agreements. Asked about the effect Venezuela's entry into Mercosul might have on the various negotiations, Didonet confirmed that Venezuelan representatives are currently sitting in on various negotiations as observers. He said that negotiators would address Venezuelan participation once their entry is approved, but was clearly aware that it held the potential for complicating negotiations enormously.

¶11. (SBU) COMMENT: Evandro Didonet is a knowledgeable and experienced trade diplomat. He travels frequently and is relatively rarely in Brasilia. He is a pragmatic negotiator, clearly as well-versed in the political priorities that are central to Mercosul's existence as he is in the economic issues that shape Mercosul's negotiating positions. Taken together, Didonet's comments on the various negotiations under way between Mercosul and other groups provide a remarkably candid assessment of both the highly political nature of these negotiations and the fact that most of them are either stalled or economically insignificant. END
COMMENT

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